



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

**SUBJECT: ECONOMIC & FISCAL
IMPACT OF AN AUTOMOBILE
MANUFACTURING FACILITY**

DATE: September 17, 2008

Approved

Date

9/17/08

COUNCIL DISTRICTS: 4

RECOMMENDATION

Accept the following report, *Estimate of Economic and Fiscal Impacts to Be Generated by Tesla Motors* by Keyser Marston Associates, Inc., on the Economic and Fiscal Impact of a proposed automobile manufacturing and assembly facility locating in San Jose.

OUTCOME

This memorandum responds to Council's direction on August 18, 2008 to initiate discussions with Tesla Motors regarding a potential location of that company's model "S" sedan automobile manufacturing facility in San Jose. Specifically, this memorandum focuses on the findings related to the Cost Benefit Analysis of revenues and expenses to the City that would arise from a proposed automobile manufacturing facility locating in San Jose.

EXECUTIVE SUMMARY

Tesla Motors is seeking to develop an advanced all-electric, zero emissions vehicle and do so in California. Tesla is a driving industry company and a leading clean-tech company. Tesla's products, including the model "S" sedan, will be sold nationally and internationally. Jobs and revenues created by the company will bring dollars from outside our community into San Jose and the region. The opportunity to advance electronic transportation and related clean tech technologies is tremendous. Tesla indicated to City staff that it intends to construct a 600,000 square foot manufacturing center and 120,000 square feet of headquarters and research and development space. Based upon assumptions provided by Tesla, such a project is estimated to generate over 1,000 jobs on site by 2012 and 700 one-time construction jobs. The impact of the construction expenditures and jobs will be substantial in providing counter-cyclical investment during a period of economic turmoil. In addition, there will be up to 2,610 service and supplier jobs created in Silicon Valley. It is estimated that the regional economic benefits will be approximately \$2 billion annually.

HONORABLE MAYOR AND CITY COUNCIL

Date: September 17, 2008

Subject: Economic & Fiscal Impact of a Proposed Automobile Manufacturing Facility

Page: 2 of 7

The analysis conducted by Keyser Marston Associates, Inc. shows the impact of a proposed development of an automobile manufacturing facility has a positive net fiscal benefit to the City.

Benefits

- 1,040 jobs in manufacturing, assembly, research & development and headquarters jobs with benefits
- 700 one-time jobs related to construction activity
- Total economic impact related to the construction of the entire project-\$129 million
- Annualized net fiscal impact to City's General Fund of \$1.459 million upon full build out of facility

Other impacts benefiting San Jose include:

- Demonstration that San Jose can attract significant Clean Tech manufacturing jobs in contrast to prevailing trends for American and Silicon Valley companies to source manufacturing elsewhere in U.S. or more recently elsewhere in the world
- A major accomplishment toward fulfilling Green Vision element #1, of creating 25,000 Clean Tech Jobs in San Jose in the next twenty-five years
- Regional benefits to San Jose and neighboring cities from name recognition and job generation
- The locating of supplier and service provider companies nearby resulting in additional capital investment and job creation in response to Tesla's need for just-in-time manufacturing and inventory controls
- International attention focused on San Jose, enhancing community pride and reputation

BACKGROUND

On August 18, 2008 City Council directed staff to initiate discussions with Tesla Motors regarding the potential location of that company's model "S" sedan automobile manufacturing facility in San Jose. City staff and Tesla executives have identified a possible facility for the automobile manufacturing facility at the Water Pollution Control Plant. The City, along with Tesla, and the other cities who jointly own the WPCP property, need to determine if a for-sale or lease term is appropriate.

Tesla Motors' decision process is on an accelerated fast track to enable the company to expeditiously build a plant facility with a goal of the first vehicle being manufactured by the fourth quarter of 2010.

To position the City to respond quickly in the event San Jose is selected and to provide the public with as much information as early as possible, the staff has initiated a cost-benefit analysis to evaluate the impact of the company's presence in the community.

In order to estimate the economic and fiscal impact of the total project, the Office of Economic Development contracted with Keyser Marston Associates to conduct the economic and fiscal impact analysis of a proposed automobile manufacturing facility.

ANALYSIS

Based upon information provided by Tesla Motors regarding preliminary terms as outlined in the preliminary term sheet (see attachment A), Keyser Marston Associates conducted a Fiscal and Economic Impact analysis. For purposes of conducting the analysis, Keyser Marston assumed a long term lease arrangement. The following analysis has been conducted in accordance with adopted Council Policy.

Cost Benefit Analysis Element: Economic Impact

Assumptions

In order to calculate the Economic and Fiscal Impact of an automobile manufacturing facility, the City and Keyser Marston Associates (KMA), Inc. has assumed the following:

- A proposed facility being developed on 89 acres in two phases
- A proposed lease term of 40 years
 - The City forgoes lease payments from year 1 to year 10
 - The City would receive fixed lease payments of \$1.5 million starting in year 11
 - Starting in year 21, the lease rate would increase by the consumer price index
- 20,000 vehicles would be produced annually

The KMA analysis also includes a comparison of a proposed automobile manufacturing use against a potential alternative long-term lease opportunity, calculating the opportunity cost of a proposed project.

Opportunity Cost of Proposed Development

For the purpose of conducting an opportunity cost analysis, a recent appraisal for vacant unimproved land, zoned light industrial conducted by Enright & Company showed a for sale price of \$12.50 per square foot, this value tracks with data from a recent property acquisition for automobile manufacturing. New United Motor Manufacturing Inc (NUMMI) purchased 72.8 acres of vacant unimproved land for \$10.14 per square foot (price established with the assistance of independent appraisals) for expansion of their automobile manufacturing facility in Fremont in 2003.

In order to determine a fair market ground rate lease, KMA used the recent appraisal findings from Enright & Company for calculating a fair market rate ground lease. KMA ascertained that a fair market ground rate lease for an alternative hypothetical office, research & development to be \$.81 per square foot. An opportunity cost analysis of the fair market rate assumption for a proposed ground lease for Tesla finds that over a 40 year lease term, a Tesla facility will generate a fiscal and economic return for both the City and the region in excess of the alternative hypothetical development.

HONORABLE MAYOR AND CITY COUNCIL

Date: September 17, 2008

Subject: Economic & Fiscal Impact of a Proposed Automobile Manufacturing Facility

Page: 4 of 7

	Cumulative 40 Year Term	Net Present Value
A Proposed Tesla Facility: Cash Impact on General Fund <i>(Cash impact reflects net General Fund Revenue plus Lease Revenue from Tesla and then subtracting the Development Impact Fees Reimbursement)</i>	\$145,400,000	\$38,000,000
Opportunity Cost of <u>Alternative</u> R&D Project <i>(Cash Impact reflects Net General Fund Fiscal Impact from Alternative Development plus the alternative lease revenue from alternative R&D development)</i>	(\$132,900,000)	(\$35,700,000)
Total General Fund Revenue Impact	\$12,500,000	\$2,300,000

(Attachment B, table 2)

Economic Impact

Economic Impact focuses on not only the direct income, spending and jobs associated with the development but also measures how those dollars flow through the economy, generating multiplier effects. Keyser Marston Associates, Inc calculated the Economic Impact associated with the construction of a manufacturing facility and the output of the facility.

Economic Impact of Construction Activity (One-time)

	Direct San Jose Economic Impact	Countywide Economic Impact (Indirect/Induced)	Total Economic Impact
Automobile Manufacturing Facility	\$84,000,000	\$45,000,000	\$129,000,000

(Attachment B, table 12)

HONORABLE MAYOR AND CITY COUNCIL

Date: September 17, 2008

Subject: Economic & Fiscal Impact of a Proposed Automobile Manufacturing Facility

Page: 5 of 7

Annual Economic Impact (Output) of Automobile Manufacturing Facility

	Direct San Jose Economic Impact	Countywide Economic Impact (Indirect/Induced)	Total Economic Impact
Automobile Manufacturing Facility	\$1,540,000,000	\$429,000,000	\$1,969,000,000

(Attachment B, table 11)

Job Impacts

Employment Impacts from Construction (One-Time Effect)

Direct San Jose Construction Employment	440
Associated Wages	\$25,000,000
Indirect/Induced Employment (Countywide)	260
Associated Wages	\$13,000,000

(Attachment B, table 12)

Annual Employment Impacts from Automobile Manufacturing Facility

Direct San Jose Employment	1,040
Associated Wages	\$76,000,000
Indirect Employment (Countywide)	2,610
Associated Wages	\$75,000,000

(Attachment B, table 11)

In order to calculate the annual salaries related to jobs, City staff adopted the same methodology that the California Employment Development Department (EDD) uses to determine the type of jobs that a proposed development would generate. Staff used the Occupational Employment Statistics (OES) job pattern data to determine the various salaries specific to Santa Clara County jobs. The following is a breakdown of jobs by salary category.

Number of Jobs by Salary Categories

Annual Salary Category	
\$1-\$29,286	0
\$29,287-39,999	500
\$40,000-59,999	190
\$60,000-79,999	99
\$80,000 +	251
Total Jobs	1,040

Sources: Keyser Marston Associates, EDD, OES Employment and Wages by Occupation, 1st Quarter 2007 Santa Clara County. Assuming the average household is between 1-2 persons, and that workers taking these jobs do not already have their housing needs met, this translates into a need of 96 ELI units.

Cost Benefit Analysis Element: Fiscal Impact

Keyser Marston Associates, Inc. also calculated the fiscal impacts of a proposed automobile manufacturing facility. An important assumption in the fiscal model pertains to the sales tax revenue generated from the sale of the model "S" sedan in San Jose. The fiscal impact model assumes that 10% of the annual automobiles produced by the facility, 2,000 vehicles, will be sold in San Jose. This assumption is assumed to be conservative based upon new car industry data from the Silicon Valley Auto Dealers that shows that 52% of all cars (41,000 cars) sold in the Bay Area are in sold in Santa Clara County.

The table below summarizes the net annualized fiscal impact to the City.

Total General Fund Revenue ¹	\$1,629,000
Total General Fund Expenditures ²	\$170,000
Net Annualized Fiscal Impact General Fund	\$1,459,000

(Source: Attachment B, Table 2)

¹ Revenues Include: Property Tax, Possessory Interest Tax, Sales Tax, Franchise Fees, Utility User Tax, Business Tax, Property Tax In-Lieu of VLF Fees.

² Expenses Include: General Government, Public Safety, Capital Maintenance, Community Services.

Cost Benefit Analysis Element: Other ImpactsNeighborhood Impacts

A proposed automobile manufacturing facility has no net impact on the City's housing stock or parks, since no housing units would be constructed. Additionally, a manufacturing facility results in zero student generation for local schools.

A transportation analysis and the Environmental Impact Report (EIR) are being conducted. Results will be released early 2009.

PUBLIC OUTREACH/INTEREST

- ☐ **Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
(Required: Website Posting)
- ☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. (Required: E-mail and Website Posting)
- ☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. (Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)

HONORABLE MAYOR AND CITY COUNCIL

Date: September 17, 2008

Subject: Economic & Fiscal Impact of a Proposed Automobile Manufacturing Facility

Page: 7 of 7

An information memo regarding preliminary findings of a Cost Benefit Analysis for the proposed project was posted on the City's website on Monday, September 8, 2008. The information was posted 28 days in advance of Council review of a proposed project as required by Council policy. The recommended time for public review of the staff memorandum and report is 14 days. This memorandum will be posted for early review allowing 21 days for public review of the Cost Benefit Analysis associated with a project. Discussion of the report will occur at the City Council meeting on October 7, 2008.

COORDINATION

This memorandum has been coordinated with the Attorneys Office.

FISCAL/POLICY ALIGNMENT

The Economic and Fiscal Impact analysis aligns to the Cost Benefit Analysis Pilot Program. In addition, this proposed project aligns with the Green Vision Goal #1, Create 25,000 Clean Tech Jobs as the World Center of Clean Tech Innovation.

CEQA

CEQA: Not a Project

A handwritten signature in black ink, appearing to read "Paul Krutko", with a long horizontal stroke extending to the right.

PAUL KRUTKO

Chief Development Officer

For questions please contact John Lang, Economic Development Officer, at 408-535-8178.

Attachment A

Term Sheet

- Tesla Motors will lease 89 acres of land located on the north east portion of Zanker Road and Highway 237, a portion of the Water Pollution Control Plant buffer lands.
- Rent for the first 10 years is proposed to be suspended
- Rent in years 11-20 will be paid by Tesla Motors in an amount of \$1.5 million annually.
- Rent in years 21+ will include an annual CPI.
- The City views the lease as a critical incentive to attract Tesla to San Jose and facilitates Tesla's success. Suspended rent is not intended to apply to any other entity. If during the first 10 years Tesla is acquired. The purchaser will pay rent at the rate of \$1.5 million per year, plus an additional \$1.5 million per year for each year that rent was suspended until such time that the suspended rent is fully paid. Rent derived from acquisition of the property under these terms will be distributed on a proportional basis to those agencies that have existing interest in the land.
- If for any reason, Tesla is dissolved, the City may specify that the land will be leased at Fair Market Value, to be determined by appraisal at that time; the City has first right of refusal if the buildings built by Tesla are to be sold; to maintain the utmost flexibility for the land, the City may opt for the buildings to be demolished at Tesla's, or Tesla's development partner's, cost.
- Timely development is of major importance in the consideration of the proposed lease. Construction must be initiated prior to December 31, 2012 or the subject land reverts to the City and the City may use for other purposes. Additionally, if by the end of 2022, there is an unused contiguous portion of land that is greater than 25 acres, then said portion of land would revert to the City and rent payable by Tesla Motors would be decreased proportionally.
- Tesla Motors has agreed to make best efforts to work with the City of San Jose to designate San Jose as the point of sale for vehicle sales.
- Tesla Motors has agreed to allocate use tax to ensure appropriate use tax designation for the City of San Jose in conjunction with the construction and operation of the facility.
- The City will reimburse Tesla, or it's development partner, for expenditures for City development fees. The City will repay the company or developer out of net new revenues generated by the project over a period of time to be negotiated with the entity that pays the development fees.

Attachment B

**Attachments: Estimate of Economic and Fiscal Impacts to Be Generated by Tesla Motors by
Keyser Marston Associates.**



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

SAN FRANCISCO
A. JERRY KEYSER
TIMOTHY C. KELLY
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KEVIN E. ENGSTROM
JULIE L. ROMEY

SAN DIEGO
GERALD M. TRIMBLE
PAUL C. MARRA

To: City of San Jose
From: Keyser Marston Associates, Inc.
Date: September 15, 2008
Subject: Estimate of Economic and Fiscal Impacts to be Generated by Tesla Motors

In accordance with your request, Keyser Marston Associates, Inc. (KMA) has estimated the economic and fiscal impacts to be generated by the construction of a new Tesla Motors manufacturing facility in San Jose and relocation of the company's headquarters and research and development facilities to San Jose. The analysis is designed to meet the City's requirement that a Cost/Benefit Analysis be undertaken for any investment of public funds over \$1 million. Tesla Motors is considering locations in several other cities in California as well as other states. Based on information provided by Tesla Motors regarding preliminary terms for a proposed 40-year ground lease, Tesla would pay no ground rent for the first ten years and pay ground rent that is less than the estimated fair market value in years 11 through 40.

Tesla Motors manufactures a line of high performance electric cars and is currently headquartered in San Carlos, CA. A proposed manufacturing / assembly facility ("phase 1") would produce approximately 20,000 cars annually and occupy 600,000 square feet of building area. A potential phase 2 would relocate Tesla's headquarters and research and development facilities to San Jose and add an additional 120,000 square feet of building area for a total of 720,000 square feet. The analysis shows impacts separately by phase and for the total facility.

The following impacts are addressed in the analysis:

- Economic output¹
- Employment

¹ Economic output refers to the value of goods and services produced in an economy. It is a measure equivalent to the gross receipts of a company.

To: City of San Jose
Subject: Economic and Fiscal Impacts – Tesla Motors

September 15, 2008
Page 2

- Payroll
- Net change in housing stock
- Fiscal Impact to the City's General Fund

The findings of the analysis and major assumptions are described below and summarized on Tables 1 and 2. Supporting analysis and assumptions are included on Tables 3 through 12.

Summary of Economic Impacts

KMA has analyzed the direct and combined total of direct, indirect, and induced economic impacts from on-going operations of Tesla Motors and construction of the new facilities. Direct impacts include economic output, employment, and payroll for Tesla itself. Indirect and induced impacts are generated as expenditures on materials, supplies, services, and consumer spending by employees stimulates further economic activity.

Direct impacts are estimated based on operational data provided by Tesla and the anticipated cost for construction of the new buildings. Indirect and induced economic impacts (multiplier effects) are estimated using RIMS II multipliers for Santa Clara County developed by the U.S. Bureau of Economic Analysis. Since a proposed facility would be located in the City of San Jose, direct impacts occur within the City of San Jose. Indirect and induced impacts are based on multipliers applicable to the County and occur throughout Santa Clara County.

A. On-Going Operations

Total economic impacts generated from on-going operations at Tesla are summarized in the table below and presented in Table 1. As shown, a facility would make Tesla a relatively large employer in San Jose at approximately 1,040 employees. Payroll for Tesla is projected to total \$76 million annually with average annual direct salary² for manufacturing employees of \$37,000 and \$109,000 for employees of the headquarters and research and development facilities. Automobile manufacturing facilities have a high multiplier/linkage factor with other industries. As a result, Tesla is anticipated to generate significant indirect and induced growth throughout Santa Clara County, including a total of 3,650 new jobs with a combined annual payroll of \$151 million. Tesla's direct economic output is projected to total over \$1.5 billion annually for San Jose and nearly \$2 billion including indirect and induced output throughout Santa Clara County.

² Excluding benefits

To: City of San Jose
Subject: Economic and Fiscal Impacts – Tesla Motors

September 15, 2008
Page 3

Recurring Annual Economic Impact of Tesla Motors	Direct Economic Impact of Tesla on City of San Jose	Total Direct, Indirect, Induced Economic Impact of Tesla on Santa Clara County
Employment		
Ph 1: Manufacturing	520 jobs	1,810 jobs
Ph 2: Headqtr / R&D	520 jobs	1,840 jobs
Total Employment	1,040 jobs	3,650 jobs
Payroll		
Ph 1: Manufacturing	\$19 million	\$38 million
Ph 2: Headqtr / R&D	\$57 million	\$113 million
Total Payroll	\$76 Million / Year	\$151 Million / Year
Economic Output		
Ph 1: Manufacturing	\$763 million	\$976 million
Ph 2: Headqtr / R&D	\$777 million	\$993 million
Total Economic Output	\$1,540 Million / Year	\$1,969 Million / Year

B. Construction / One-Time

The one-time construction period impacts from development of a new Tesla manufacturing, headquarters, and R&D facilities are summarized in the table below and presented on Table 1. Tesla estimates construction costs at \$60 million for the manufacturing facility. Construction cost for the headquarters and research and development facilities are estimated at \$24 million. These construction expenditures are estimated to translate into the equivalent of 440 construction jobs for a one-year period and are estimated to support approximately 700 direct, indirect, and induced jobs throughout the County for a one-year period. Approximately 70% of construction employment is generated from the manufacturing facility and 30% is generated from construction of the headquarters and R&D facilities. Estimates of the economic impacts from construction are shown on Table 12.

To: City of San Jose
Subject: Economic and Fiscal Impacts – Tesla Motors

September 15, 2008
Page 4

One-Time Economic Impacts of Construction	Direct Economic Impact of Tesla on City of San Jose	Total Direct, Indirect, Induced Economic Impact of Tesla on Santa Clara County
Employment		
Ph 1: Manufacturing	320 jobs – one year	510 jobs – one year
Ph 2: Headqtr / R&D	120 jobs – one year	190 jobs – one year
Total Employment	440 jobs – one year	700 jobs – one year
Payroll		
Ph 1: Manufacturing	\$18 million	\$27 million
Ph 2: Headqtr / R&D	\$7 million	\$11 million
Total Payroll	\$25 Million	\$38 Million
Economic Output		
Ph 1: Manufacturing	\$60 million	\$92 million
Ph 2: Headqtr / R&D	\$24 million	\$37 million
Total Economic Output	\$84 Million	\$129 Million

Net Change in Housing Stock

A project will have no net impact on the City's housing stock since no housing units will be demolished or constructed.

Summary of General Fund Impacts

The net impact to the City's General Fund is summarized on Table 2 with supporting analysis included on Tables 3 through 10. The analysis is separated into three components:

- General Fund fiscal impacts to traditional municipal revenue sources such as property tax, sales tax, and service costs including police and fire;
- General Fund impacts related to the proposed real estate transaction including lease revenue and the proposed development impact fee reimbursement; and
- Opportunity costs associated with forgoing the hypothetical potential to lease the site to another party at a market rate ground rent.

The fiscal and transaction components of the analysis are impacts on the City's cash position. The opportunity costs included in the analysis are not out-of-pocket cash expenses but address the hypothetical potential to achieve market rate ground rent with another user.

To: City of San Jose
Subject: Economic and Fiscal Impacts – Tesla Motors

September 15, 2008
Page 5

A. General Fund Fiscal Impacts

A Tesla facility is anticipated to annually generate significant General Fund revenues to the City of San Jose. General Fund revenues to be generated by Tesla include property tax, property tax in-lieu of vehicle license fees, sales taxes, franchise fees, business license taxes and utility user taxes (Table 4). Annual General Fund revenues are estimated at \$1,630,000 upon stabilization of which \$1,524,000 is generated by the manufacturing facility and \$105,000 is generated by the headquarters and research and development facility. Sales tax accounts for approximately \$1.2 million or 75% of projected revenues. Sales tax estimates are based on the assumption that the City of San Jose will be the point of sale for approximately 10% of cars manufactured at the facility. This estimate was provided by City staff based on discussions with Tesla on the potential for San Jose to be a point of sale for a portion of car sales.

General fund expenses associated with providing municipal services to Tesla are estimated on Table 5. Potential on-going service expenses include Police, Fire, General Government, Capital Maintenance, Finance, Economic Development and Community Services. The expenses provided on Table 5 are based on cost factors developed for the analysis of the proposed soccer stadium and are derived from the City's FY 2007-08 budget. The estimate is designed to incorporate an allowance for potential future increases in demand for City services which may occur due to employment growth at Tesla. Total General Fund service costs are estimated at \$170,000 per year including \$80,000 for the manufacturing facility and \$90,000 for the headquarters and research and development facility. No material additional staff requirements are projected given this relatively minor increase in service costs which would be spread across a number of City departments.

Total net fiscal impact to the General Fund upon stabilization is estimated at a positive \$1,459,000 annually. The cumulative net General Fund fiscal impact is approximately \$109 million over the 40 year lease term or \$31 Million on a net present value basis (see Table 2 summary and Table 7)

B. General Fund Transaction Revenues and Costs

A site proposed for lease to Tesla is part of water pollution control plant property jointly owned by the cities of San Jose and Santa Clara but several other jurisdictions also have rights with respect to the property. Based on information provided by Tesla Motors regarding preliminary terms for a proposed 40 year ground lease, Tesla would start making an annual ground lease payment of \$1.5 million starting in the 11th year after opening. Beginning in year 21, the ground rent would be adjusted by a CPI factor each year which is projected at 3%. Ground lease revenue is assumed to be shared among the jurisdictions based on an established land participation formula which provides for a

To: City of San Jose
Subject: Economic and Fiscal Impacts – Tesla Motors

September 15, 2008
Page 6

66% share to the City of San Jose. A summary of a proposed lease is provided on Table 6.

The City has proposed to reimburse \$1.5 million in development impact fees from a portion of the net revenues generated by a proposed facility. For purposes of this analysis, it has been assumed that 40% of the annual net General Fund Revenues generated by Tesla would be reimbursed until the cumulative reimbursement totals \$1.5 million. Based on the projection of net General Fund revenues, it is anticipated that the \$1.5 million obligation would be retired by the end of the 3rd year of operation.

It is our understanding that a development of a Tesla facility could require some off-site improvements, including frontage improvements on Zanker Road. However the cost of the needed improvements and the City's obligations relative to funding the improvements have not yet been established. Therefore, no off-site improvement costs have been included in this analysis.

The net revenue to the City of San Jose generated from a lease transaction and impact fee reimbursement is approximately \$36 million over the 40 year term or \$7 million net present value.

The combined net cash impact on the General fund over a 40 year lease is projected to total \$145 million or \$38 million on a net present value basis including both fiscal and transaction revenues and costs as summarized on Table 2 and in the inset table below.

Cash Impact on General Fund from Tesla Operations	Cumulative 40 Year Term (\$Millions)	Net Present Value 40 Year Term (\$Millions)
Projected General Fund Fiscal Impacts		
Annual General Fund Revenues	\$126.6	\$35.5
Annual General Fund Service Costs	<u>(\$17.3)</u>	<u>(\$4.3)</u>
Net Annual General Fund Revenue / (Cost)	\$109.3	\$31.2
Projected Transaction Revenues/Costs		
Proposed Ground Lease Revenues	\$37.6	\$8.1
City Reimbursement of Development Impact Fees	<u>(\$1.5)</u>	<u>(\$1.3)</u>
	\$36.1	\$6.8
Cash Impact on General Fund [Fiscal + Transaction Revenues/Costs]	\$145.4	\$38.0

C. Opportunity Costs – Forgone Net Revenue with a Hypothetical Alternative Project

For comparison purposes, KMA has evaluated the net fiscal benefits that could be generated by a hypothetical alternative industrial user of the proposed site. Since no specific proposal has been made and timing is uncertain, it is assumed that the

To: City of San Jose
Subject: Economic and Fiscal Impacts – Tesla Motors

September 15, 2008
Page 7

hypothetical alternative transaction would occur at least five years in the future. For purposes of this analysis, it has been assumed that the hypothetical industrial user would pay a ground rent consistent with the site's estimated fair market value. Based on an appraisal of an adjacent property, it is estimated that the fair-market ground lease would generate significantly more rent than what is supported by Tesla. As shown on Table 2, it is estimated that the alternative user would generate lease revenues totaling \$143 million over the 40-year term (or \$37 million in present value terms).

General Fund Fiscal revenues and expenses associated with the hypothetical industrial user are analyzed on Tables 8 through 10. The hypothetical alternative industrial user is not assumed to be a significant source of sales taxes, the primary source of projected General Fund fiscal revenue generated by Tesla. There is a projected cumulative net General Fund expense with the alternative project of \$10.1 million over 40 years (or \$1.6 million net present value).

The combined General Fund fiscal and transaction revenue with the hypothetical alternative project is estimated to total \$133 million over 40 years or \$36 million net present value. This is approximately \$12.5 million or \$2.3 million net present value less than the projection for Tesla. While Tesla does not generate as much lease revenue as the hypothetical alternative, the General Fund fiscal revenues are significantly greater, primarily because of the sales tax revenue-generating capacity of Tesla. Therefore, it is estimated that Tesla will generate a significantly higher net fiscal benefit to the City than would an alternative use, even given that an alternative use might support a higher ground rent payment.

The potential net General Fund revenue with the hypothetical alternative transaction is treated as an "opportunity cost." In proceeding with Tesla, the City forgoes the potential revenue that could be generated with the hypothetical alternative. As shown on Table 2 and in the inset table below, after deducting opportunity costs, the net General Fund Impact of Tesla Motors is estimated at \$12.5 million over 40 years or \$2.3 million in net present value terms.

Total Cash and Opportunity Cost Impact on General Fund from Tesla Operations	Cumulative 40 Year Term (\$Millions)	Net Present Value 40 Year Term (\$Millions)
Cash Impact on General Fund (see above)	\$145.4	\$38.0
Opportunity Cost: Forgone Net Revenue with Hypothetical Alternative Industrial Project		
Net Fiscal Impact / Hypothetical Project	\$10.1	\$1.6
Market Rate Ground Lease / Hypothetical Project	<u>(\$143.0)</u>	<u>(\$37.3)</u>
	(\$132.9)	(\$35.7)
Total General Fund Impact [Cash Impact + Opportunity Cost]	\$12.5	\$2.3

To: City of San Jose
Subject: Economic and Fiscal Impacts – Tesla Motors

September 15, 2008
Page 8

Limiting Conditions

1. The analysis contained in this document is based, in part, on data provided by Tesla Motors, and other secondary sources such as state and local governments, planning agencies, and other third parties. The source of each specific piece of data is cited in the attached technical analytical tables. While Keyser Marston Associates, Inc. (KMA) believes that these sources are reliable; we cannot guarantee their accuracy.
2. A projection of economic and fiscal impacts is inherently based on judgment. The projections contained herein are based on the best information available at the time that this document was prepared. However, the actual impacts may vary.
3. The analysis assumes that the economy will continue to grow at a moderate rate.
4. The estimates are based on the best project-specific data available at this time as well as experience with comparable projects. Any changes to costs, development program, or project performance may render the conclusions contained herein invalid.
5. No abstracting, excerpting, or summarization of this report may be made without first obtaining prior written consent from KMA.

Table 1
Summary of Economic Benefits
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

September 15, 2008

	<u>Phase 1</u> <u>Manufacturing</u>	<u>Phase 2</u> <u>Headquarters / R&D</u>	<u>Total</u> <u>Facility</u>	
On-Going Economic Benefits / Operations				
Table 11				
Direct Impact - <i>within City of San Jose</i> ¹				
Economic Output	\$763	\$777	\$1,540	Million/Yr
Payroll	\$19	\$57	\$76	Million/Yr
Employment	516	525	1,041	jobs
Direct, Indirect, Induced Impact - <i>County-wide</i> ²				
Economic Output	\$976	\$993	\$1,969	Million/Yr
Payroll	\$38	\$113	\$151	Million/Yr
Employment	1,810	1,840	3,650	jobs
Construction Economic Benefits / One-Time				
Table 12				
Direct Impact - <i>within City of San Jose</i>				
Economic Output	\$60	\$24	\$84	Million
Payroll	\$18	\$7	\$25	Million
Employment ³	320	120	440	person yrs
Direct, Indirect, Induced Impact - <i>County-wide</i> ²				
Economic Output	\$92	\$37	\$129	Million
Payroll	\$27	\$11	\$38	Million
Employment ³	510	190	700	person yrs

Notes:

¹ For stabilized year.

² Total inclusive of direct impacts identified above.

³ Expressed in terms of person years of employment.

Table 2
Summary of Fiscal Impacts
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing/Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

September 15, 2008

			Annual Impact / Stabilization	Cumulative	Net Present
			Phase 1	40 Year Term ¹	Value ¹
			Phase 2		
			Total		
Projected General Fund Fiscal Impacts					
Annual General Fund Revenues	Table 4, 7		\$1,524,000	\$126,600,000	\$35,500,000
Annual General Fund Service Costs	Table 5, 7		<u>(\$80,000)</u>	<u>(\$17,300,000)</u>	<u>(\$4,300,000)</u>
Net Annual General Fund Revenue / (Cost)			\$1,444,000	\$109,300,000	\$31,200,000
Projected Transaction Revenues/Costs					
Proposed Ground Lease Revenues	Table 7			\$37,600,000	\$8,100,000
City Reimbursement of Development Impact Fees ²	Table 7			<u>(\$1,500,000)</u>	<u>(\$1,300,000)</u>
				\$36,100,000	\$6,800,000
Cash Impact on General Fund				\$145,400,000	\$38,000,000
[Fiscal + Transaction Revenues/Costs]					
Opportunity Cost: Forgone Net Revenue Achievable with Hypothetical Alternative Industrial Project					
Net Fiscal Impact / Hypothetical Project	Table 10			\$10,100,000	\$1,600,000
Market Rate Ground Lease / Hypothetical Project	Table 10			<u>(\$143,000,000)</u>	<u>(\$37,300,000)</u>
				<u>(\$132,900,000)</u>	<u>(\$35,700,000)</u>
Total General Fund Impact				\$12,500,000	\$2,300,000
[Fiscal, Transaction Revenues/Costs, Opportunity Cost / Foregone					
Net Revenue with Hypothetical Alternative Project]					

Notes:

¹ Measured over the 40 year lease commitment period. NPV in FY 2008-09 based on a 6% discount rate. Rounded to nearest \$100,000.

² Assumes fees are reimbursed in years 1 and 2 of lease. If fees are reimbursed in year 10 of lease, NPV of reimbursement is \$790,000.

Table 3
Summary of Proposed Facilities
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

September 15, 2008

Building Area

Phase 1 - Manufacturing	600,000	Sq. Ft.
Phase 2 - Headquarters / R&D (potential) ¹	<u>120,000</u>	Sq. Ft.
	720,000	Sq. Ft.

Employment in San Jose

Phase 1 - Manufacturing	516	Employees ²
Phase 2 - Headquarters / R&D (potential) ¹	<u>525</u>	Employees
	1,041	Employees

Notes:

¹ Phase 2 is assumed to proceed in early 2012.

² Includes 116 employees classified as indirect labor.

Source: City of San Jose.

Table 4
Projection of Annual City General Fund Revenue
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

September 15, 2008

	<u>Phase 1</u> <u>Manufacturing</u> <i>600,000 sf</i>	<u>Phase 2</u> <u>HQ / R&D</u> <i>120,000 sf</i>	<u>Total Facility</u> <i>720,000 sf</i>
General Fund Revenue			
Property Tax			
Building Value ¹	\$60,000,000	\$24,000,000	\$84,000,000
Land Value ²	<u>\$40,400,000</u>	<u>\$8,100,000</u>	<u>\$48,500,000</u>
Secured Property Value	\$100,400,000	\$32,100,000	\$132,500,000
Personal Property Value ³	no personal property value		
San Jose share of 1% tax ⁴	14.85%	14.85%	14.85%
Total Tax	\$149,000	\$48,000	\$197,000
Property Tax In-Lieu of VLF			
Assessed Property Value ^{2,3}	\$100,400,000	\$32,100,000	\$132,500,000
VLF in-lieu per \$1,000 in AV Growth ⁵	\$0.57	\$0.57	\$0.57
Total Tax	\$57,000	\$18,000	\$75,000
Sales Tax			
Car Sales ⁶	\$120,000,000	\$0	\$120,000,000
Total Tax	1% local share \$1,200,000	\$0	\$1,200,000
Franchise Tax			
Employees	516	525	1,041
Daytime Service Population	1/2 per empl 258	263	521
Total Tax ⁸	\$33.78/day time pop'n \$9,000	\$9,000	\$18,000
Business License Tax			
Employees	516	525	1,041
Total Tax ⁹	\$18 /empl \$9,000	\$10,000	\$19,000
Utility User Tax			
Annual Utility Expenses ¹⁰	\$170 k/mo var. \$30 k/mo fixed \$2,000,000	\$400,000	\$2,400,000
Total Tax ⁹	5% \$100,000	\$20,000	\$120,000
Total Annual Revenue to City General Fund	\$1,524,000	\$105,000	\$1,629,000

Notes:

¹ Assumes \$60 M hard construction cost per City staff applies to manufacturing facility. Assessed value for phase 2 estimated at \$200/SF.

² Based on 2004 appraisal from Enright & Company, at \$12.50/sf for the 89 acre property. Allocated based on building area.

³ Assumes total equipment needs will not exceed \$100 million exempted from property taxes by State.

⁴ Per Santa Clara County Controller-Treasurer Department, Property Tax Division, September 3, 2008.

⁵ Per SB 1096, growth of property tax in lieu of VLF is proportional to growth in AV since 2004/05. Per the California State Controller's Office, property tax based VLF in 2004-05 was \$52,581,000 and gross AV for the City was \$92,565,000,000. This yields \$0.57 in revenue per \$1,000 in AV growth.

⁶ Assumes San Jose will be the point of sale for sales tax purposes for 10% of the 20,000 total annual car production based on preliminary discussions between City staff and Tesla Motors.

⁷ Weighting for purposes of computing daytime service population based on the adopted report "Fiscal and Economic Impact Analysis of Major League Soccer Stadium Proposal", dated January 2008, prepared by Economic and Planning Systems.

⁸ Revenue factor based on soccer stadium report.

⁹ Per San Jose 2007-2008 Adopted Budget.

¹⁰ Based on variable and fixed utility use of \$170,000 and \$30,000 per month, respectively. Allocated based on building area.

Source: City of San Jose, Tesla Motors.

Prepared by: Keyser Marston Associates, Inc.

Filename: \\Sf-fs1\wp\19\19081\19081.006\Tesla CBA 9 15 08.xls; 9/16/2008; jj

Table 5

**Projection of Annual City General Fund Service Costs
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA**

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

September 15, 2008

			Phase 1 Manufacturing	Phase 2 HQ / R&D	Total Facility
Service Population					
employees			516	525	1,041
daytime service population	weighed at 1 per resident and 1/2 per employee ²		258	263	521
General Fund Service Costs					
	<u>Service Cost Factors (soccer stadium report)¹</u>				
General Government	\$14 per daytime service population		3,570	3,630	7,200
Finance	\$3 per daytime service population		690	700	1,390
Economic Development	\$1 per daytime service population		330	330	660
Police	\$155,000 per officer with 1.17 officers per 1,000		46,790	47,600	94,390
Fire	\$148,000 per firefighter with 0.64 firefighters per 1,000		24,440	24,860	49,300
Capital Maintenance					
General Service	\$13 per daytime service population		3,250	3,300	6,550
Public Works	\$9 per daytime service population		2,380	2,410	4,790
Transportation ³	\$15,000 per road mile			no additional roads	
Community Service					
Library	\$10 per resident		0	0	0
Park Rec & Neighborhood Service	\$15,000 per acre of park			no additional parks	
Planning, Building, Code Enforce	\$9 per daytime service population		2,190	2,230	4,420
Total Annual General Fund Service Cost⁴			\$83,640	\$85,060	\$168,700
or say			\$80,000	\$90,000	\$170,000

Notes:

¹ All cost factors are based on the adopted report "Fiscal and Economic Impact Analysis of Major League Soccer Stadium Proposal" dated January 2008 prepared by Economic and Planning Systems. General Government, Finance, and Economic Development cost factors adjusted to correct apparent math error.

² Weighting for purposes of computing daytime service population based on soccer stadium report.

³ Roads to the site are in place and it is assumed that no additional roads are required.

⁴ No material additional staff requirements are projected given this relatively minor increase in service costs which would be spread across a number of City departments.

Source: City of San Jose; Economic and Planning Systems 2008.

Table 6

**Summary of Proposed Ground Lease and Potential Market Rate Ground Lease
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA**

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

September 15, 2008

		Proposed Ground Lease		Potential Market Rate Ground Lease <i>With Hypothetical Alternative Project</i>	
Lease Term		40 years		40 years ²	
Start Date / Year 1 of Lease		2010		2013	
Site Area		89 acres		89 acres	
Estimated Land Value	\$12.50 /SF ³			\$48.5 Million ³	
Annual Lease Payment, Year 1-10		\$0	no payment until year 11	\$3,650,000	\$48.5 M Land Value X 6.5% annual lease rate
San Jose Share ¹	66.181% ¹	\$0		\$2,420,000	(note 4) plus CPI adjustment for five years (assume 3%/yr) to start of lease.
Annual Lease Payment, Year 11-20		\$1,500,000	base rent	\$4,910,000	CPI adjustment at 11th year (assume 3%/yr)
San Jose Share ¹	66.181% ¹	\$993,000		\$3,250,000	
Annual Lease Payment, Year 21-30		\$1,545,000	starting in year 21, begin annual	\$6,600,000	CPI adjustment at 21st year (assume 3%/yr)
San Jose Share ¹	66.181% ¹	\$1,022,000	CPI adjustments (assume 3%/yr)	\$4,370,000	
Annual Lease Payment, Year 31-40		\$2,076,000	continue annual CPI increases	\$8,870,000	CPI adjustment at 31st year (assume 3%/yr)
San Jose Share ¹	66.181% ¹	\$1,374,000	over base rent (assume 3%/yr)	\$5,870,000	

Notes:

¹ The property is jointly owned by the City of San Jose and the City of Santa Clara and several other jurisdictions also have rights in respect to the property. Assumes ground rent is allocated based on the percentage shares specified in the existing land participation formula (pre-1982 shares):

Agency	Share
San José	66.181%
Santa Clara	15.620%
West Valley	6.472%
Cupertino	4.463%
Milpitas	6.703%
Burbank	0.248%
Sunol	0.313%
	100.000%

² It is assumed that the site could not be leased to another party until FY 2013/14.

³ Value of the property estimated based on a 2004 appraisal of an adjacent parcel at \$12.50 per square foot.

⁴ Supported ground lease payment estimated at 6.5% of the property's value based on the Appraisal of Airport West Soccer Stadium (FMC Site) by Carnegie-Blum & Partners, Inc.

Source: City of San Jose.

Prepared by: Keyser Marston Associates, Inc.

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Table 7

Cash Flow Projection - Fiscal Impacts ¹
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

	Growth Rate	NPV @ 6% in 2008-09	Lease Year:									
			2008-09	2009-10	2010-11 ⁵	2011-12	2012-13	2013-14 ⁶	2014-15	2015-16	2016-17	2017-18
GENERAL FUND REVENUE & EXPENSE			Page 1 of 4									
Revenue			<u>Construction</u>		<u>Phase I</u>			<u>Phase II</u>				
Property Tax ²	2%	\$3,618,000	\$0	\$0	\$77,510	\$158,120	\$161,282	\$191,006	\$221,854	\$226,291	\$230,817	\$235,433
Property tax in-lieu of VLF ²	2%	1,378,000	0	0	29,651	60,489	61,699	72,869	84,462	86,151	87,874	89,632
Sales Tax	3%	27,144,000	0	0	954,810	1,311,272	1,350,611	1,391,129	1,432,863	1,475,849	1,520,124	1,565,728
Franchise Tax	3%	381,000	0	0	7,161	9,835	10,130	15,650	21,493	22,138	22,802	23,486
Business License	3%	400,000	0	0	7,161	9,835	10,130	16,230	22,687	23,368	24,069	24,791
Utility User Tax	3%	<u>2,655,000</u>	<u>0</u>	<u>0</u>	<u>79,568</u>	<u>109,273</u>	<u>112,551</u>	<u>127,520</u>	<u>143,286</u>	<u>147,585</u>	<u>152,012</u>	<u>156,573</u>
		35,577,000	0	0	1,155,861	1,658,823	1,706,402	1,814,404	1,926,645	1,981,381	2,037,698	2,095,642
Expense	4%	(4,329,000)	0	0	(64,896)	(89,989)	(93,589)	(152,082)	(215,104)	(223,708)	(232,657)	(241,963)
Net Annual GF Revenue / (Expense)		31,248,000	0	0	1,090,965	1,568,834	1,612,813	1,662,323	1,711,541	1,757,673	1,805,042	1,853,679
TRANSACTION REVENUES/COSTS												
(plus) Lease Revenues ³	3%	8,148,000	0	0	0	0	0	0	0	0	0	0
(less) Developer Impact Fee Reimburse ⁴		(1,261,000)	0	0	(436,386)	(627,534)	(436,080)	0	0	0	0	0
Net Cash Flow To City of San Jose		38,135,000	0	0	654,579	941,300	1,176,732	1,662,323	1,711,541	1,757,673	1,805,042	1,853,679

Notes:¹ Figures do not match estimates for the stabilized year provided on Table 2 due to inflation to initial year of operation and lag time for assessed value to be reflected on the rolls.² Reflects one year lag for added assessed value to be placed on the secured property tax roll. Assumes partial construction values in first year of operation.³ See Table 6.⁴ Assumes \$1.5 million in development impact fees are reimbursed from a portion of net new revenues generated by the project.⁵ Phase I occupancy assumed for the last three quarters of FY 2010-11 based on projected completion by October 2010.⁶ Phase II occupancy assumed for second half of FY 2013-14 based on projected start in 2012 (assume first quarter), and construction period similar to Phase I (two years).⁷ Projection period based on 40 year lease term. Assumes lease begins with occupancy of Phase 1, in October 2010.

Table 7

Cash Flow Projection - Fiscal Impacts ¹
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

	9	10	11	12	13	14	15	16	17	18	19	20
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
GENERAL FUND REVENUE & EXPENSE <i>Page 2 of 4</i>												
Revenue			<u>Lease Pymts</u>									
Property Tax ²	\$240,142	\$244,945	\$249,844	\$254,841	\$259,937	\$265,136	\$270,439	\$275,848	\$281,365	\$286,992	\$292,732	\$298,586
Property tax in-lieu of VLF ²	91,425	93,253	95,118	97,020	98,961	100,940	102,959	105,018	107,118	109,261	111,446	113,675
Sales Tax	1,612,700	1,661,081	1,710,913	1,762,240	1,815,108	1,869,561	1,925,648	1,983,417	2,042,920	2,104,207	2,167,333	2,232,353
Franchise Tax	24,190	24,916	25,664	26,434	27,227	28,043	28,885	29,751	30,644	31,563	32,510	33,485
Business License	25,534	26,300	27,089	27,902	28,739	29,601	30,489	31,404	32,346	33,317	34,316	35,346
Utility User Tax	<u>161,270</u>	<u>166,108</u>	<u>171,091</u>	<u>176,224</u>	<u>181,511</u>	<u>186,956</u>	<u>192,565</u>	<u>198,342</u>	<u>204,292</u>	<u>210,421</u>	<u>216,733</u>	<u>223,235</u>
	2,155,261	2,216,603	2,279,719	2,344,661	2,411,482	2,480,238	2,550,984	2,623,780	2,698,685	2,775,760	2,855,071	2,936,681
Expense	(251,642)	(261,707)	(272,175)	(283,062)	(294,385)	(306,160)	(318,407)	(331,143)	(344,389)	(358,164)	(372,491)	(387,391)
Net Annual GF Revenue / (Expense)	1,903,619	1,954,896	2,007,544	2,061,599	2,117,097	2,174,078	2,232,578	2,292,637	2,354,296	2,417,596	2,482,580	2,549,290
TRANSACTION REVENUES/COSTS												
(plus) Lease Revenues ³	0	0	744,750	993,000	993,000	993,000	993,000	993,000	993,000	993,000	993,000	993,000
(less) Developer Impact Fee Reimburse ⁴	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash Flow To City of San Jose	1,903,619	1,954,896	2,752,294	3,054,599	3,110,097	3,167,078	3,225,578	3,285,637	3,347,296	3,410,596	3,475,580	3,542,290

Notes:¹ Figures do not match estimates for the stabilized year provided on Table 2 due to inflation to initial year of operation and lag time for assessed value to be reflected on the rolls.² Reflects one year lag for added assessed value to be placed on the secured property tax roll. Assumes partial construction values in first year of operation.⁴ Assumes \$1.5 million in development impact fees are reimbursed from a portion of net new revenues generated by the project.⁵ Phase I occupancy assumed for the last three quarters of FY 2010-11 based on projected completion by October 2010.⁶ Phase II occupancy assumed for second half of FY 2013-14 based on projected start in 2012 (assume first quarter), and construction period similar to Phase I (two years).⁷ Projection period based on 40 year lease term. Assumes lease begins with occupancy of Phase 1, in October 2010.

Table 7

Cash Flow Projection - Fiscal Impacts ¹
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

	21	22	23	24	25	26	27	28	29	30	31	32
	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37	2037-38	2038-39	2039-40	2040-41	2041-42
GENERAL FUND REVENUE & EXPENSE Page 3 of 4												
Revenue												
Property Tax ²	\$304,558	\$310,649	\$316,862	\$323,199	\$329,663	\$336,257	\$342,982	\$349,841	\$356,838	\$363,975	\$371,254	\$378,680
Property tax in-lieu of VLF ²	115,948	118,267	120,633	123,045	125,506	128,016	130,577	133,188	135,852	138,569	141,341	144,167
Sales Tax	2,299,324	2,368,304	2,439,353	2,512,534	2,587,910	2,665,547	2,745,513	2,827,879	2,912,715	3,000,096	3,090,099	3,182,802
Franchise Tax	34,490	35,525	36,590	37,688	38,819	39,983	41,183	42,418	43,691	45,001	46,351	47,742
Business License	36,406	37,498	38,623	39,782	40,975	42,204	43,471	44,775	46,118	47,502	48,927	50,394
Utility User Tax	<u>229,932</u>	<u>236,830</u>	<u>243,935</u>	<u>251,253</u>	<u>258,791</u>	<u>266,555</u>	<u>274,551</u>	<u>282,788</u>	<u>291,271</u>	<u>300,010</u>	<u>309,010</u>	<u>318,280</u>
	3,020,659	3,107,073	3,195,997	3,287,501	3,381,664	3,478,562	3,578,276	3,680,889	3,786,486	3,895,153	4,006,982	4,122,066
Expense	(402,886)	(419,002)	(435,762)	(453,192)	(471,320)	(490,173)	(509,780)	(530,171)	(551,378)	(573,433)	(596,370)	(620,225)
Net Annual GF Revenue / (Expense)	2,617,773	2,688,072	2,760,235	2,834,309	2,910,344	2,988,390	3,068,497	3,150,718	3,235,108	3,321,721	3,410,612	3,501,841
TRANSACTION REVENUES/COSTS												
(plus) Lease Revenues ³	1,022,790	1,053,474	1,085,078	1,117,630	1,151,159	1,185,694	1,221,265	1,257,903	1,295,640	1,334,509	1,374,544	1,415,781
(less) Developer Impact Fee Reimburse ⁴	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash Flow To City of San Jose	3,640,563	3,741,546	3,845,313	3,951,940	4,061,503	4,174,084	4,289,762	4,408,621	4,530,748	4,656,229	4,785,157	4,917,622

Notes:

¹ Figures do not match estimates for the stabilized year provided on Table 2 due to inflation to initial year of operation and lag time for assessed value to be reflected on the rolls.

² Reflects one year lag for added assessed value to be placed on the secured property tax roll. Assumes partial construction values in first year of operation.

⁴ Assumes \$1.5 million in development impact fees are reimbursed from a portion of net new revenues generated by the project.

⁵ Phase I occupancy assumed for the last three quarters of FY 2010-11 based on projected completion by October 2010.

⁶ Phase II occupancy assumed for second half of FY 2013-14 based on projected start in 2012 (assume first quarter), and construction period similar to Phase I (two years).

⁷ Projection period based on 40 year lease term. Assumes lease begins with occupancy of Phase 1, in October 2010.

Table 7
Cash Flow Projection - Fiscal Impacts ¹
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

September 15, 2008

	33	34	35	36	37	38	39	40	41 (partial)	Nominal
	2042-43	2043-44	2044-45	2045-46	2046-47	2047-48	2048-49	2049-50	2050-51 ⁷	Total
GENERAL FUND REVENUE & EXPENSE										
Page 4 of 4										
Revenue										
Property Tax ²	\$386,253	\$393,978	\$401,858	\$409,895	\$418,093	\$426,455	\$434,984	\$443,683	\$452,557	\$12,576,000
Property tax in-lieu of VLF ²	147,051	149,992	152,992	156,051	159,172	162,356	165,603	168,915	172,293	4,789,000
Sales Tax	3,278,286	3,376,635	3,477,934	3,582,272	3,689,740	3,800,432	3,914,445	4,031,879	1,038,209	96,712,000
Franchise Tax	49,174	50,650	52,169	53,734	55,346	57,006	58,717	60,478	15,573	1,418,000
Business License	51,906	53,463	55,067	56,719	58,421	60,174	61,979	63,838	16,438	1,495,000
Utility User Tax	<u>327,829</u>	<u>337,663</u>	<u>347,793</u>	<u>358,227</u>	<u>368,974</u>	<u>380,043</u>	<u>391,445</u>	<u>403,188</u>	<u>103,821</u>	<u>9,599,000</u>
	4,240,499	4,362,381	4,487,813	4,616,899	4,749,746	4,886,466	5,027,172	5,171,981	1,798,892	126,589,000
Expense	(645,034)	(670,835)	(697,669)	(725,575)	(754,598)	(784,782)	(816,174)	(848,820)	(220,693)	(17,313,000)
Net Annual GF Revenue / (Expense)	3,595,466	3,691,546	3,790,145	3,891,324	3,995,148	4,101,684	4,210,999	4,323,161	1,578,198	109,276,000
TRANSACTION REVENUES/COSTS										
(plus) Lease Revenues ³	1,458,254	1,502,002	1,547,062	1,593,473	1,641,278	1,690,516	1,741,232	1,793,468	461,818	37,626,000
(less) Developer Impact Fee Reimburse ⁴	0	0	0	0	0	0	0	0	0	(1,500,000)
Net Cash Flow To City of San Jose	5,053,720	5,193,548	5,337,206	5,484,797	5,636,426	5,792,200	5,952,230	6,116,629	2,040,016	145,402,000

Notes:

¹ Figures do not match estimates for the stabilized year provided on Table 2 due to inflation to initial year of operation and lag time for assessed value to be reflected on the rolls.

² Reflects one year lag for added assessed value to be placed on the secured property tax roll. Assumes partial construction values in first year of operation.

⁴ Assumes \$1.5 million in development impact fees are reimbursed from a portion of net new revenues generated by the project.

⁵ Phase I occupancy assumed for the last three quarters of FY 2010-11 based on projected completion by October 2010.

⁶ Phase II occupancy assumed for second half of FY 2013-14 based on projected start in 2012 (assume first quarter), and construction period similar to Phase I (two years).

⁷ Projection period based on 40 year lease term. Assumes lease begins with occupancy of Phase I, in October 2010.

Table 8

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

Projection of Annual City General Fund Revenue

Hypothetical Alternative Industrial Project for Analysis of Opportunity Costs

Fiscal Impact and Economic Benefit Analysis

Tesla Motors Manufacturing / Assembly Facility

City of San Jose, CA

September 15, 2008

	<u>Hypothetical Industrial Use</u>
General Fund Revenue - Alternative Project	
Property Tax	
Building Value ¹	\$144,000,000
Land Value ²	\$48,500,000
Total Assessed Value	\$192,500,000
San Jose share of 1% tax ³	14.85%
Total Tax	\$286,000
Property Tax In-Lieu of VLF	
Assessed Property Value	\$192,500,000
VLF in-lieu per \$1,000 in AV Growth ⁴	\$0.57
Total Tax	\$109,000
Sales Tax	assume minimal
Franchise Tax	
Employees ⁵	3,150
Daytime Service Population	1/2 per empl 1,575
Total Tax ⁷	\$53,000
	\$33.78/day time pop'n
Business License Tax	
Employees ⁵	3,150
Total Tax ⁸	\$57,000
	\$18 /empl
Utility User Tax	
Annual Utility Expenses ⁵	\$2,400,000
Total Tax ⁸	\$120,000
	5%
Total Annual Revenue to City General Fund	<u>\$625,000</u>

Notes:¹ Estimated at \$200/SF.² Based on 2004 appraisal from Enright & Company, at \$12.50/sf for the 89 acre property.³ Per Santa Clara County Controller-Treasurer Department, Property Tax Division, September 3, 2008.⁴ Per SB 1096, growth of property tax in lieu of VLF is proportional to growth in AV since 2004/05. Per the California State Controller's Office, property tax based VLF in 2004-05 was \$52,581,000 and gross AV for the City was \$92,565,000,000. This yields \$0.57 in revenue per \$1,000 in AV growth.⁵ Based on R&D component of Tesla Motors.⁶ Weighting for purposes of computing daytime service population based on the adopted report "Fiscal and Economic Impact Analysis of Major League Soccer Stadium Proposal", dated January 2008, prepared by Economic and Planning Systems.⁷ Revenue factor based on soccer stadium report.⁸ Per San Jose 2007-2008 Adopted Budget.

Table 9

Projection of Annual City General Fund Service Costs
Hypothetical Alternative Industrial Project for Analysis of Opportunity Costs
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

September 15, 2008

		<u>Hypothetical Industrial Use</u>
Service Population		
employees		3,150
daytime service population	weighed at 1 per resident and 1/2 per employee ²	1,575
General Fund Service Costs		
	<u>Service Cost Factors (soccer stadium report) ¹</u>	
General Government	\$14 per daytime service population	21,790
Finance	\$3 per daytime service population	4,200
Economic Development	\$1 per daytime service population	2,000
Police	\$155,000 per officer with 1.17 officers per 1,000	285,630
Fire	\$148,000 per firefighter with 0.64 firefighters per 1,000	149,180
Capital Maintenance		
General Service	\$13 per daytime service population	19,820
Public Works	\$9 per daytime service population	14,510
Transportation ³	\$15,000 per road mile	no additional roads
Community Service		
Library	\$10 per resident	0
Park Rec & Neighborhood Service	\$15,000 per acre of park	no additional parks
Planning, Building, Code Enforce	\$9 per daytime service population	13,390
Total Annual General Fund Service Cost		<u>\$510,520</u>
or say		\$510,000

Notes:

¹ All cost factors are based on the adopted report "Fiscal and Economic Impact Analysis of Major League Soccer Stadium Proposal" dated January 2008 prepared by Economic and Planning Systems. General Government, Finance, and Economic Development cost factors adjusted to correct apparent math error.

² Weighting for purposes of computing daytime service population based on soccer stadium report.

³ Roads to the site are in place and it is assumed that no additional roads are required.

Source: City of San Jose; Economic and Planning Systems 2008.

Table 10

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

Cash Flow Projection - Fiscal Impacts ¹Hypothetical Alternative Industrial Project for Analysis of Opportunity Costs

Fiscal Impact and Economic Benefit Analysis

Tesla Motors Manufacturing / Assembly Facility

City of San Jose, CA

			Lease Year:									
	Growth Rate	NPV @ 6% in 2008-09	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
GENERAL FUND REVENUE & EXPENSE			Page 1 of 4									
<i>Hypothetical Alternative Industrial Project</i>												
Revenue									Start Construction ³	Occupancy		
Property Tax ²	2%	\$4,188,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$164,262	\$335,095	\$341,796
Property tax in-lieu of VLF ²	2%	1,596,000	0	0	0	0	0	0	0	62,603	127,711	130,265
Franchise Tax	3%	975,000	0	0	0	0	0	0	0	65,183	67,139	69,153
Business License	3%	1,049,000	0	0	0	0	0	0	0	70,103	72,206	74,372
Utility User Tax	3%	2,207,000	0	0	0	0	0	0	0	147,585	152,012	156,573
		10,015,000	0	0	0	0	0	0	0	509,736	754,163	772,159
Expense	4%	(12,998,000)	0	0	0	0	0			(671,125)	(697,970)	(725,889)
Net Annual GF Revenue / (Expense)		(1,553,000)	0	0	0	0	0	0	0	(161,389)	56,192	46,270
TRANSACTION REVENUES/COSTS												
<i>Hypothetical Alternative Industrial Project</i>												
Fair Market Value Lease Revenues ^{3,4}	3%	37,278,000	0	0	0	0	0	2,420,000	2,420,000	2,420,000	2,420,000	2,420,000
Total Net Cash Flow To City of San Jose		35,726,000	0	0	0	0	0	2,420,000	2,420,000	2,258,611	2,476,192	2,466,270
<i>Hypothetical Alternative Industrial Project</i>												

Notes:¹ Figures do not match estimates for the stabilized year due to inflation to initial year of operation and lag time for assessed value to be reflected on the rolls.² Reflects one year lag for added assessed value to be placed on the secured property tax roll. Assumes partial construction values in first year of operation.³ Given that there are currently no parties interested in leasing the property at market value, it has been assumed that it could not be leased to another party until FY 2013/14.⁴ See Table 6.

Table 10

Cash Flow Projection - Fiscal Impacts ¹
Hypothetical Alternative Industrial Project for
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

	9	10	11	12	13	14	15	16	17	18	19	20
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
GENERAL FUND REVENUE & EXPENSE Page 2 of 4												
<u>Hypothetical Alternative Industrial Project</u>												
Revenue												
Property Tax ²	\$348,632	\$355,605	\$362,717	\$369,971	\$377,371	\$384,918	\$392,617	\$400,469	\$408,478	\$416,648	\$424,981	\$433,481
Property tax in-lieu of VLF ²	132,870	135,528	138,238	141,003	143,823	146,700	149,634	152,626	155,679	158,792	161,968	165,208
Franchise Tax	71,228	73,364	75,565	77,832	80,167	82,572	85,049	87,601	90,229	92,936	95,724	98,596
Business License	76,603	78,901	81,268	83,706	86,218	88,804	91,468	94,212	97,039	99,950	102,948	106,037
Utility User Tax	<u>161,270</u>	<u>166,108</u>	<u>171,091</u>	<u>176,224</u>	<u>181,511</u>	<u>186,956</u>	<u>192,565</u>	<u>198,342</u>	<u>204,292</u>	<u>210,421</u>	<u>216,733</u>	<u>223,235</u>
	790,604	809,507	828,881	848,737	869,090	889,950	911,333	933,250	955,717	978,747	1,002,355	1,026,556
Expense	(754,925)	(785,122)	(816,526)	(849,187)	(883,155)	(918,481)	(955,220)	(993,429)	(1,033,166)	(1,074,493)	(1,117,473)	(1,162,172)
Net Annual GF Revenue / (Expense)	35,679	24,385	12,354	(450)	(14,065)	(28,531)	(43,888)	(60,179)	(77,450)	(95,746)	(115,118)	(135,616)
TRANSACTION REVENUES/COSTS												
<u>Hypothetical Alternative Industrial Project</u>												
Fair Market Value Lease Revenues ^{3, 4}	2,420,000	2,420,000	2,420,000	2,420,000	2,420,000	3,250,000	3,250,000	3,250,000	3,250,000	3,250,000	3,250,000	3,250,000
Total Net Cash Flow To City of San Jose	2,455,679	2,444,385	2,432,354	2,419,550	2,405,935	3,221,469	3,206,112	3,189,821	3,172,550	3,154,254	3,134,882	3,114,384
<u>Hypothetical Alternative Industrial Project</u>												

Notes:¹ Figures do not match estimates for the stabilized year due to inflation to initial year of operation and lag time for assessed value to be reflected on the rolls.² Reflects one year lag for added assessed value to be placed on the secured property tax roll. Assumes partial construction values in first year of operation.³ Given that there are currently no parties interested in leasing the property at market value, it has been assumed that it could not be leased to another party until FY 2013/14.⁴ See Table 6.

Table 10

Cash Flow Projection - Fiscal Impacts ¹
Hypothetical Alternative Industrial Project for
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

	21 2030-31	22 2031-32	23 2032-33	24 2033-34	25 2034-35	26 2035-36	27 2036-37	28 2037-38	29/ 2038-39	30 2039-40	31 2040-41	32 2041-42
GENERAL FUND REVENUE & EXPENSE	Page 3 of 4											
<i>Hypothetical Alternative Industrial Project</i>												
Revenue												
Property Tax ²	\$442,150	\$450,993	\$460,013	\$469,213	\$478,598	\$488,170	\$497,933	\$507,892	\$518,049	\$528,410	\$538,979	\$549,758
Property tax in-lieu of VLF ²	168,512	171,882	175,320	178,826	182,403	186,051	189,772	193,567	197,438	201,387	205,415	209,523
Franchise Tax	101,553	104,600	107,738	110,970	114,299	117,728	121,260	124,898	128,645	132,504	136,479	140,574
Business License	109,218	112,494	115,869	119,345	122,926	126,613	130,412	134,324	138,354	142,505	146,780	151,183
Utility User Tax	<u>229,932</u>	<u>236,830</u>	<u>243,935</u>	<u>251,253</u>	<u>258,791</u>	<u>266,555</u>	<u>274,551</u>	<u>282,788</u>	<u>291,271</u>	<u>300,010</u>	<u>309,010</u>	<u>318,280</u>
	1,051,366	1,076,800	1,102,875	1,129,608	1,157,016	1,185,117	1,213,928	1,243,469	1,273,758	1,304,816	1,336,663	1,369,319
Expense	(1,208,659)	(1,257,005)	(1,307,285)	(1,359,577)	(1,413,960)	(1,470,518)	(1,529,339)	(1,590,512)	(1,654,133)	(1,720,298)	(1,789,110)	(1,860,674)
Net Annual GF Revenue / (Expense)	(157,293)	(180,205)	(204,410)	(229,968)	(256,943)	(285,401)	(315,411)	(347,044)	(380,375)	(415,482)	(452,447)	(491,356)
TRANSACTION REVENUES/COSTS												
<i>Hypothetical Alternative Industrial Project</i>												
Fair Market Value Lease Revenues ^{3,4}	3,250,000	3,250,000	3,250,000	4,370,000	4,370,000	4,370,000	4,370,000	4,370,000	4,370,000	4,370,000	4,370,000	4,370,000
Total Net Cash Flow To City of San Jose	3,092,707	3,069,795	3,045,590	4,140,032	4,113,057	4,084,599	4,054,589	4,022,956	3,989,625	3,954,518	3,917,553	3,878,644
<i>Hypothetical Alternative Industrial Project</i>												

Notes:¹ Figures do not match estimates for the stabilized year due to inflation to initial year of operation and lag time for assessed value to be reflected on the rolls.² Reflects one year lag for added assessed value to be placed on the secured property tax roll. Assumes partial construction values in first year of operation.³ Given that there are currently no parties interested in leasing the property at market value, it has been assumed that it could not be leased to another party until FY 2013/14.⁴ See Table 6.

Table 10

Cash Flow Projection - Fiscal Impacts ¹
Hypothetical Alternative Industrial Project for
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

September 15, 2008

	33 2042-43	34 2043-44	35 2044-45	36 2045-46	37 2046-47	38 2047-48	39 2048-49	40 2049-50	41 (partial) 2050-51	Nominal Total
GENERAL FUND REVENUE & EXPENSE										
<i>Hypothetical Alternative Industrial Project</i>										
Revenue										
Property Tax ²	\$560,753	\$571,968	\$583,408	\$595,076	\$606,977	\$619,117	\$631,499	\$644,129	164,253	\$16,424,000
Property tax in-lieu of VLF ²	213,714	217,988	222,348	226,795	231,331	235,957	240,676	245,490	62,600	6,260,000
Franchise Tax	144,791	149,135	153,609	158,217	162,964	167,852	172,888	178,075	45,854	3,987,000
Business License	155,719	160,390	165,202	170,158	175,263	180,521	185,936	191,514	49,315	4,288,000
Utility User Tax	<u>327,829</u>	<u>337,663</u>	<u>347,793</u>	<u>358,227</u>	<u>368,974</u>	<u>380,043</u>	<u>391,445</u>	<u>403,188</u>	<u>103,821</u>	<u>9,027,000</u>
	1,402,805	1,437,145	1,472,360	1,508,473	1,545,508	1,583,490	1,622,444	1,662,396	425,843	39,986,000
Expense	(1,935,101)	(2,012,505)	(2,093,006)	(2,176,726)	(2,263,795)	(2,354,347)	(2,448,521)	(2,546,461)	(662,080)	(50,092,000)
Net Annual GF Revenue / (Expense)	(532,296)	(575,361)	(620,646)	(668,253)	(718,287)	(770,856)	(826,076)	(884,065)	(236,237)	(10,106,000)
TRANSACTION REVENUES/COSTS										
<i>Hypothetical Alternative Industrial Project</i>										
Fair Market Value Lease Revenues ^{3,4}	4,370,000	5,870,000	5,870,000	5,870,000	5,870,000	5,870,000	5,870,000	5,870,000	1,467,500	142,958,000
Total Net Cash Flow To City of San Jose	3,837,704	5,294,639	5,249,354	5,201,747	5,151,713	5,099,144	5,043,924	4,985,935	1,231,263	132,852,000
<i>Hypothetical Alternative Industrial Project</i>										

Notes:¹ Figures do not match estimates for the stabilized year due to inflation to initial year of operation and lag time for assessed value to be reflected on the rolls.² Reflects one year lag for added assessed value to be placed on the secured property tax roll. Assumes partial construction values in first year of operation.³ Given that there are currently no parties interested in leasing the property at market value, it has been assumed that it could not be leased to another party until FY 2013/14.⁴ See Table 6.

Table 11
Projection of Economic Benefits from On-Going Operations
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

September 15, 2008

		<u>Annual Direct Impact City of San Jose</u>	<u>Santa Clara County Multiplier¹</u>	<u>County-wide Indirect & Induced Impact</u>	<u>Total County- wide Annual Impact</u>
On-Going Economic Impacts					
Employment					
Phase 1 - Manufacturing Facility		516 ²	3.498	1,294	1,810
Phase 2 - R&D / Headquarters		<u>525</u>	3.498	<u>1,315</u>	<u>1,840</u>
Total Facility		1,041	3.498	2,609	3,650
Payroll					
	<u>Avg Pay</u>				
Phase 1 - Manufacturing Facility	\$37,000	\$19,000,000 ^{2,3}	1.979	\$19,000,000	\$38,000,000
Phase 2 - R&D / Headquarters	<u>\$109,000</u>	<u>\$57,000,000</u> ³	1.979	<u>\$56,000,000</u>	<u>\$113,000,000</u>
Total Facility	\$73,000	\$76,000,000	1.979	\$75,000,000	\$151,000,000
Economic Output / Gross Sales					
Phase 1 - Manufacturing Facility		\$763,000,000 ⁴	1.279	\$213,000,000	\$976,000,000
Phase 2 - R&D / Headquarters		<u>\$777,000,000</u> ⁴	1.279	<u>\$216,000,000</u>	<u>\$993,000,000</u>
Total Facility		\$1,540,000,000 ⁴	1.279	\$429,000,000	\$1,969,000,000

Notes:

¹ Estimated multiplier for automobile and light manufacturing based on Bureau of Economic Analysis RIMS II multipliers for Santa Clara County applicable to the motor vehicle parts manufacturing industry (NAICS 336300). Santa Clara County multipliers for automobile manufacturing are not available because it is a new industry to the County. Multipliers for motor vehicle parts manufacturing were adjusted based on the ratio between the multipliers for automobile and automobile parts manufacturing in Alameda County.

² Including contract employees.

³ Based on estimates for fully loaded employee payroll provided by Tesla Motors adjusted by KMA to direct payroll assuming a 35% load factor for employee benefits, insurance, and taxes.

⁴ Per Tesla motors based on gross sales revenue for vehicles that would be manufactured at the proposed plant estimated at 1,600 sales per month with \$80,000 in revenue per car including ZEV and CAFE credits. Preliminary working draft allocation by project component / phase based on number of employees.

Sources: Bureau of Economic Analysis, Tesla Motors.

Prepared by: Keyser Marston Associates, Inc.

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Table 12

**Projection of Economic Benefits from Construction
Fiscal Impact and Economic Benefit Analysis
Tesla Motors Manufacturing / Assembly Facility
City of San Jose, CA**

WORKING DRAFT - FOR INTERNAL DISCUSSIONS ONLY

September 15, 2008

		<u>Annual Direct Impact City of San Jose</u>	<u>Santa Clara County Multiplier²</u>	<u>County-wide Indirect & Induced Impact</u>	<u>Total County-wide Impact</u>
Construction Period Economic Impacts					
Economic Output / Gross Sales from Construction					
Phase 1 - Manufacturing Facility		\$60,000,000 ¹	1.533	\$32,000,000	\$92,000,000
Phase 2 - R&D / Headquarters		<u>\$24,000,000 ¹</u>	1.533	<u>\$13,000,000</u>	<u>\$37,000,000</u>
Total Facility		\$84,000,000 ¹		\$45,000,000	\$129,000,000
Construction Payroll					
Phase 1 - Manufacturing Facility	30% of cost ³	\$18,000,000	1.482	\$9,000,000	\$27,000,000
Phase 2 - R&D / Headquarters	30% of cost ³	<u>\$7,000,000</u>	1.482	<u>\$4,000,000</u>	<u>\$11,000,000</u>
Total Facility		\$25,000,000		\$13,000,000	\$38,000,000
Construction Employment					
Phase 1 - Manufacturing Facility	\$57,000 avg pay ⁴	320 person years ⁵	1.590	190 person years ⁵	510 person years ⁵
Phase 2 - R&D / Headquarters	\$57,000 avg pay ⁴	<u>120 person years ⁵</u>	1.590	<u>70 person years ⁵</u>	<u>190 person years ⁵</u>
Total Facility		440 person years ⁵		260 person years ⁵	700 person years ⁵

Notes:

¹ Based on hard construction cost of building. 100% of direct economic output is shown as occurring in San Jose because construction activity will occur in San Jose; however, contractors may be based elsewhere. Purchases of plant machinery and equipment assumed to be from suppliers located outside of the region and are therefore not included in economic benefits of construction.

² Bureau of Economic Analysis RIMS II multipliers for Santa Clara County applicable to the construction industry.

³ Based on the 2002 Economic Census. Ratio of net value of construction work to gross payroll for commercial building construction contractors.

⁴ Per California Employment Development Department data on average pay for construction workers in Santa Clara County in 2007 inflated by 3% to 2008.

⁵ A person year of employment is equivalent to full time employment of one person for one year.

Sources: Bureau of Economic Analysis, Tesla Motors.